

UK HOTEL SECTOR OUTLOOK

The ongoing and tightening of social distancing restrictions throughout the UK are proving to be particularly challenging for the hotel sector, with tier-3 restrictions in England even more extreme than compared to the constraints of the second lockdown.

With large areas of the country now falling within the highest tiers of restrictions, up to 25% of UK hotel supply may be forced to close. Many of these hotels are likely to remain closed into Q1-2021, with January and February traditionally periods of lower hotel demand.

For those hotels which continue to trade, reduced headcounts supporting a much lower base of occupancy will be further flexed downwards, with the use of the furlough scheme. Analysis shows that depending upon hotel class, an occupancy of between 15% to 25% is typically required for a hotel to breakeven, with efficient use of the furlough scheme.

Restructuring of personnel and changing the way in which hotels operate are likely to have far reaching impact on the sector across all hotel classes.

Certain operators have reduced hours of full-time employment contracts, as well as re-employing staff on zero-hour contracts, in order to flex staff hours according to demand. Multi-skilling of staff has become the new norm, with employees embracing the cultural shift to work across multiple departments.

From 15th December arrivals into the UK can reduce their quarantine from 14 to 5 days by purchasing a test, offering some hope for key gateway cities such as London and Edinburgh, which rely heavily on international demand.

Capturing domestic leisure demand will be critical in the short-term. A number of hotel operators have started to use national TV advertising campaigns to drive direct bookings.

Staycation demand in the UK hotel market is likely to remain substantially above the historical long-term levels throughout 2021. With strong pent-up demand, the summer months have the potential to generate higher performance than in 2020.

Hotel operators are reporting healthy forward bookings for the spring and summer months of 2021, boosting customer confidence by providing flexible booking options.

As the recovery evolves, achieving the correct balance of experience and hospitality versus sanitisation and hospitalisation will become increasingly important, as hotels seek to ensure that a high level of customer satisfaction and retention is achieved.

Whilst the roll-out of a global vaccine during 2021 should hopefully result in social distancing measures gradually being eased, the recovery of corporate demand and ultimately MICE demand will take some time to gain momentum.

REGIONAL UK HOTEL TRADING PERFORMANCE

REVPAR/TREVPAR: As the second wave of the pandemic took hold throughout October, hotel trading performance weakened across the UK.

Occupancy across regional UK declined by over six percentage points, contributing to a 21.6% decline in RevPAR in October, compared to the previous month.

Regional UK select service and upper-midscale hotels recorded a monthly RevPAR decline of between 21%-22%, whilst RevPAR for full-service upper and upper-upscale hotels fell by 26%-27%. However, a slightly improved performance in terms of F&B spend for the upscale hotel datasets, led to a slightly softer monthly TRevPAR decline of between 22% and 23%.

With hotel demand weakening during October, the premium in RevPAR achieved between a full-service upper-upscale hotel and an upper-midscale hotel narrowed to 12%, compared to 18% the previous month. However, the margin widens considerably in terms of TRevPAR performance, with a 39% variance between upper-midscale and full-service upscale hotels.

For the second consecutive month, full-service upscale hotels have outperformed upper-upscale hotels, achieving a 6% premium in TRevPar in October of £41.

Payroll: Whilst the flexible furlough scheme has been a lifeline for many hotel owners, for the month of October the scheme was the most costly, with employers' contributions rising to 20% of the unworked hours. This additional cost is evident in the trading performance data. From November, the furlough scheme reverts back to 80% of unworked hours being paid by the government.

Critical to breaking even during a period of low occupancy and with non-rooms revenue ranging between 50%-65% below the historical norm, is the effective and constant control of payroll. October trading data suggests that deeper payroll efficiencies were necessary, in line with declining monthly revenues, and particularly where government support to wages reduced to less than 80%.

HotStats data reveals that despite Regional UK TRevPAR falling by 20% during October, total departmental operating payroll PAR declined only marginally, averaging between 3%-10%. Whilst total departmental costs, excluding payroll, actually declined, the reduced revenues and high payroll costs resulted in the Rooms profit margin declining by over 30% across all regional UK hotel datasets.

Meanwhile, non-departmental payroll costs continues to increase month-on-month, with select-service hotels witnessing a 10% rise PAR in October.

GOPPAR: The month of October has witnessed a sharp decline in GOPPAR across all hotel datasets, with select service and upper-midscale hotels recording a 77% decline month-on-month, to less than £2.0 PAR and full-service upper and upper-upscale hotels both recording a loss for the first time since July.

A sizeable reduction in non-payroll related departmental operating costs and undistributed operating costs helped stem the decline in profits. Albeit, select-service and upper midscale hotels typically operate on a lean cost base, as such full-service upscale and upper upscale hotels achieved greater cost savings during the month.

The Golf & Spa hotel dataset achieved the strongest GOPPAR for the month of October of £17 PAR. This represented a 61% y-o-y decline, due to the absence of the MICE segment but enhanced golf revenue - increasing by 16.7% compared to October 2019 - was the main driver for securing the leading GOPPAR performance.

GOP%: The dataset for UK-Extended Stay/ Aparthotel sector continues to outperform the sector, achieving GOP% (as a percentage of Total Revenue) of 33.0% for the month of October. This is largely attributed to the total payroll costs, which equated to 33% of total revenue, the lowest of all the datasets.

Covid-19 UK Hotel Market Recovery

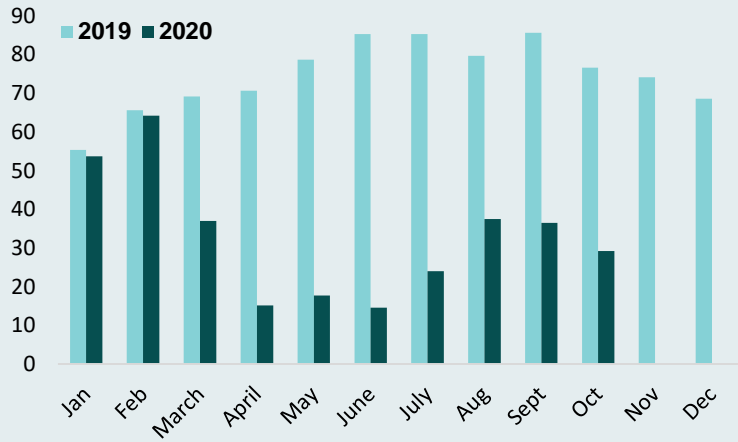
Hotel Dashboard, December 2020



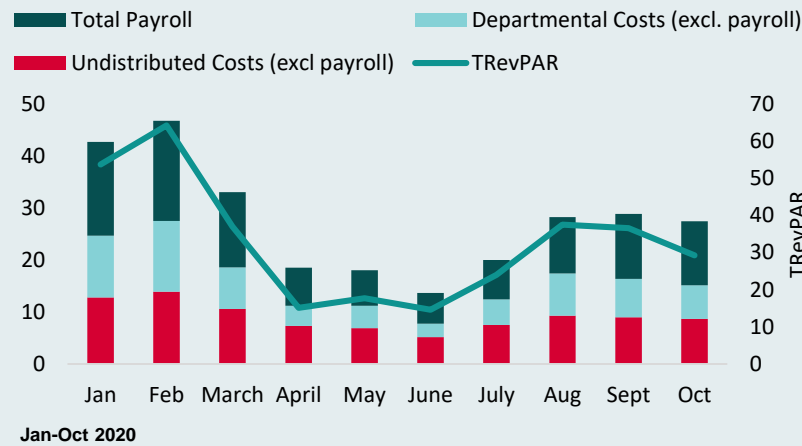
HOTSTATS

REGIONAL UK, UPPER MIDSCALE HOTELS

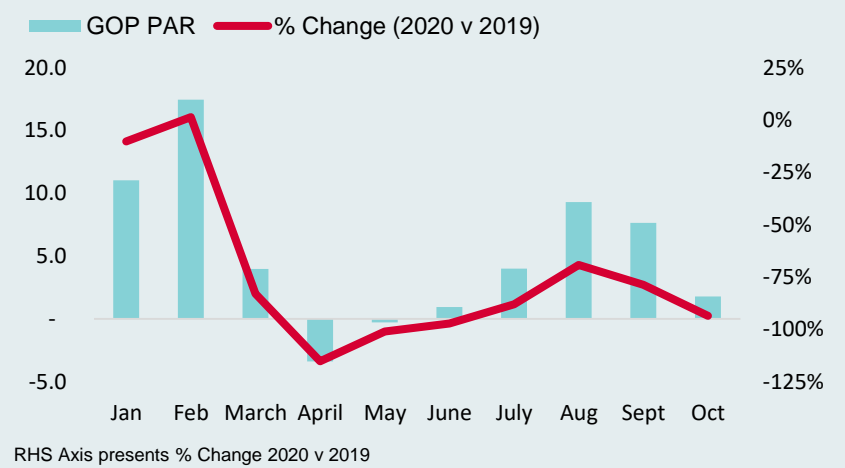
TRevPAR (£)



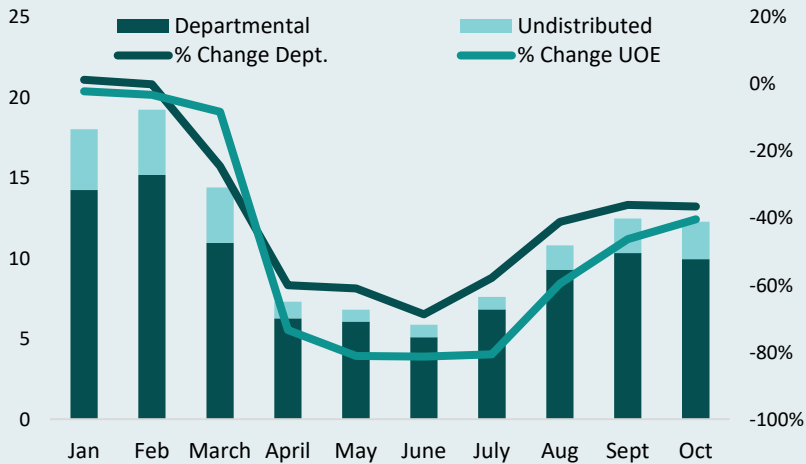
Total Costs v TRevPAR (£)



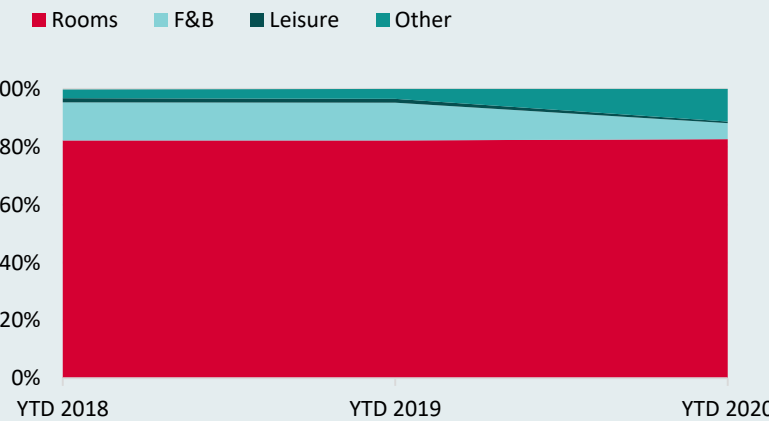
GOP PAR (£)



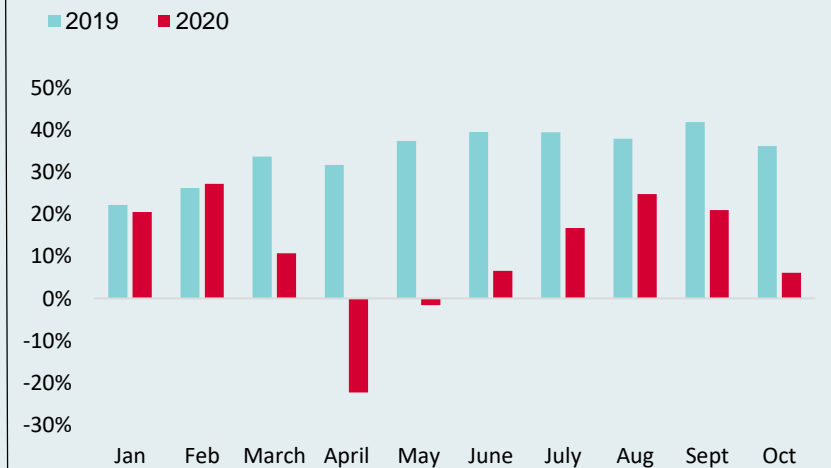
Total Payroll PAR (£)



Department Income contribution PAR Oct YTD



GOP%



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Covid-19 UK Hotel Market Recovery

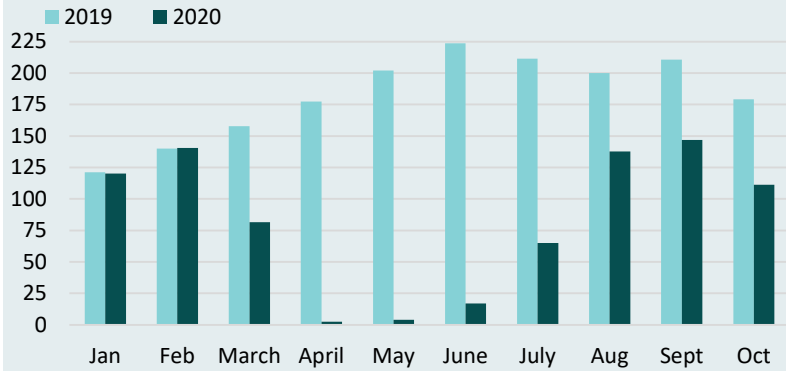
Hotel Dashboard, December 2020



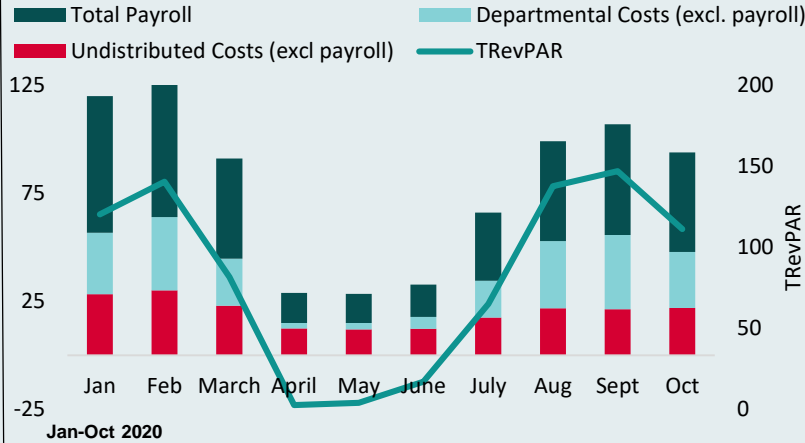
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REGIONAL UK, GOLF & SPA HOTELS

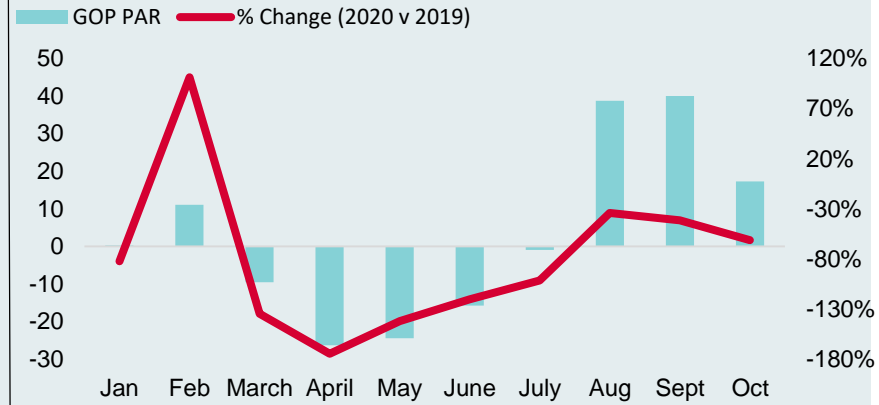
TRevPAR (£)



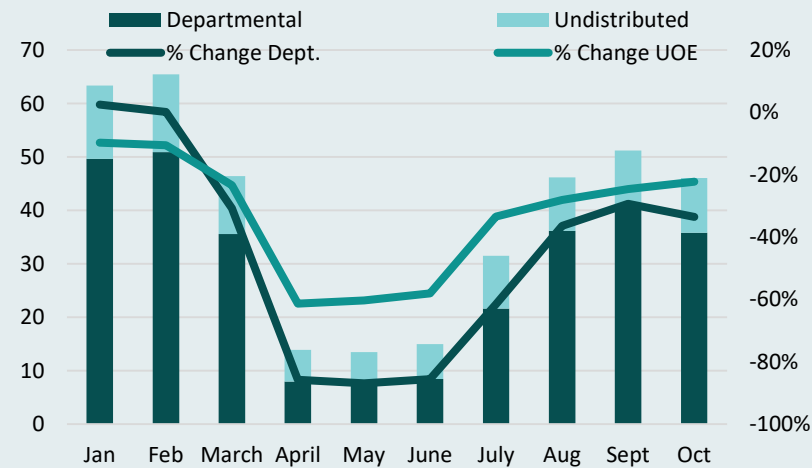
Total Costs v TRevPAR



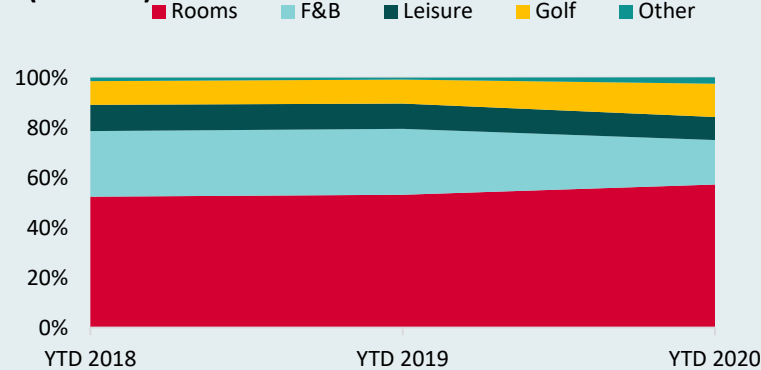
GOP PAR



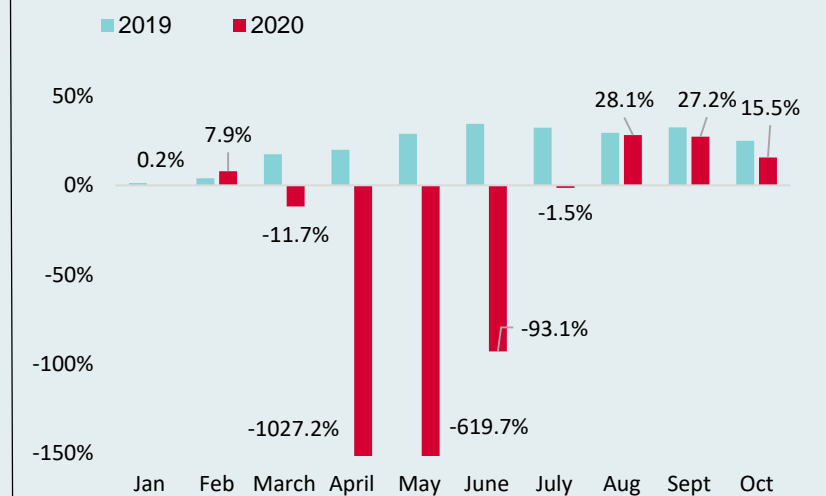
Total Payroll PAR (£)



Department Income contribution PAR (Oct YTD)



GOP%



RHS Axis presents % Change 2020 v 2019

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